

Durham Research Online

Deposited in DRO:

27 January 2017

Version of attached file:

Accepted Version

Peer-review status of attached file:

Peer-reviewed

Citation for published item:

Swaffield, J. and Snell, C. and Tunstall, B. and Bradshaw, J. (2017) 'An evaluation of the living wage : identifying pathways out of in-work poverty.', *Social policy and society*, 17 (3). pp. 379-392.

Further information on publisher's website:

<https://doi.org/10.1017/s1474746417000136>

Publisher's copyright statement:

This article has been published in a revised form in *Social Policy and Society*
<https://doi.org/10.1017/s1474746417000136>. This version is free to view and download for private research and study only. Not for re-distribution, re-sale or use in derivative works. © Cambridge University Press 2017

Additional information:

Use policy

The full-text may be used and/or reproduced, and given to third parties in any format or medium, without prior permission or charge, for personal research or study, educational, or not-for-profit purposes provided that:

- a full bibliographic reference is made to the original source
- a [link](#) is made to the metadata record in DRO
- the full-text is not changed in any way

The full-text must not be sold in any format or medium without the formal permission of the copyright holders.

Please consult the [full DRO policy](#) for further details.

AN EVALUATION OF THE LIVING WAGE: IDENTIFYING PATHWAYS OUT OF IN-WORK POVERTY

Jo Swaffield¹, Carolyn Snell², Becky Tunstall³ and Jonathan Bradshaw⁴

Contact author Jonathan Bradshaw email: jonathan.bradshaw@york.ac.uk

6377 words

Abstract

This article reports the results of a case study of the introduction of the living wage. Three employers in the City of York became Living Wage employers. Using data derived from a sample survey of their employees and qualitative interviews this paper explores what impact the receipt of the living wage had on poverty and deprivation. It found that not all living wage employees were income poor or deprived although those on living wage rates were more likely to be poor and deprived than those on slightly higher wages. The more important determinant of the employees' living standards was the household they lived in and there were a high proportion of living wage employees living in multi-unit households. Also important were the number of earners in the household and the hours worked by the living wage employee. Lone parent families and single people appeared to be most vulnerable to poverty and deprivation. In addition, whether the employee took up their entitlement to in-work benefits was critical and, using benefit checks by welfare rights experts, it was found that some were not.

Key words: Living wage, poverty, deprivation, low pay, minimum wage

Introduction

In a time of austerity and low economic growth the challenges faced by low-waged workers in earning enough to support themselves and their families to achieve a socially acceptable standard of living are immense. Identifying effective and sustainable pathways out of in-work poverty for these workers holds significant benefit for the workers, their families and the state. However for employers facing increasing expectations to view their employees' wage through a lens of social responsibility rather than purely productivity or market comparison,

¹ Department of Economics, University of York email jo.swaffield@york.ac.uk

² Department of Social Policy and Social Work, University of York email caz.snell@york.ac.uk

³ Centre for Housing Policy, University of York email becky.tunstall@york.ac.uk

⁴ Social Policy Research Unit, University of York email jonathan.bradshaw@york.ac.uk

this can amount to another significant cost pressure, to be set against a general background of competing wage demands throughout the organisation's workforce. Understanding how effective different anti-poverty measures actually are for workers, and how sustainable they are as long-term measures to be engaged with by employers, is therefore crucial to the in-work poverty policy debate. A debate that is increasingly urgent as recent UK figures (DWP 2016) show in-work poverty is increasing faster than poverty in workless households.

In 2013 three large employers in the City of York became Voluntary Living Wage (VLW) employers. They were the City of York Council (CYC), Joseph Rowntree Foundation/Joseph Rowntree Housing Trust (JRF/JRHT) and York St John University (YSJU). It is notable that all three are public or voluntary sector organisations, while private sector employees have a higher risk of low pay (Cooke and Lawton 2008). However, other York employers subsequently also became VLW employers, including the private companies Nestlé and Aviva. It was decided that this was a good opportunity to undertake research on the impact of the VLW on poverty, and funding was obtained from the ESRC under their Knowledge Exchange Programme.

The research project included i) a pre-living wage survey of a small sample of JRF/JRHT employees; ii) a structured sample survey post-living wage of 500 employees. Two-fifths of these were newly on the VLW and the rest, a comparator group, were other low paid employees earning up to £10 per hour; iii) a follow-up qualitative survey of a sub-sample of employees who had had a wage increase as a result of the introduction of the living wage; iv) a benefits assessment undertaken by welfare rights specialist at the York Welfare Benefits Unit; and v) interviews with employers and analysis of the implementation of the VLW by the three partner employers. This article is focussed on the lessons that can be learned for in-work poverty and deprivation alleviation, drawing on the evidence of the qualitative and quantitative surveys.

Policy and evidence background

Hood et al. said, *"Those with the lowest incomes are generally not in work at all"* (Hood et al. 2014 p170). UK out-of-work benefit rates for non-working households by definition mean claimant households are likely to be poor. In contrast, most people in work are not in poor households (Gardiner and Millar 2006). 89% of people living in households where someone works are in not in poverty (Hood et al. 2014). Thus evidence suggests, *"There is much truth*

in the [then Labour] Government's claim that work is the best route out of poverty" (Cooke and Lawton 2008 p35).

However, those in work are not immune from poverty. In 2014/15 22% of households in poverty have at least one person working full-time (DWP 2016). The prevalence of in-work poverty has been increasing. For example according to the *Households Below Average Incomes* figures (DWP 2016), between 2007/8 and 2014/15 the percentage of children living in households with equivalent income less than 60 per cent of median before housing costs which had at least one earning adult increased from 57% to 67%.

The idea that the wage should not just be compensation for labour but also a means of securing a living goes back at least to Adam Smith (1776). Pope Leo XIII in *Rerum Novarum* (1891) launched the concept of a family wage. The regulation of wages in the UK began with the Fair Wages Resolution 1891, followed by the Trade Boards Act 1909, and the Wages Councils Act 1945. Eventually a statutory National Minimum Wage (NMW) was introduced from 1999. The term 'living wage' emerged amongst campaigners in the USA in the 1870s (Glickman 1997), and Seeborn Rowntree called for a living wage to allow a male worker to support a wife and family (Cooke and Lawton 2008). In the UK the modern idea of a VLW, at a rate higher than the NMW, emerged in 2001 from a campaign began by a group of NGOs and trades unions in London (Bennett 2014), who now operate under the aegis of the Living Wage Foundation (<http://www.livingwage.org.uk/what-living-wage>). The VLW was £8.25 per hour and £9.40 per hour in London in October 2015. The NMW was £6.70 per hour at the same time. The VLW is a voluntary hourly rate, set independently, and updated annually according to the basic cost of living published by the Minimum Income Standard (MIS) project (though it is now calculated for London by the Living Wage Commission for London). Employers choose to pay the VLW and, in exchange, can receive the Living Wage Employer Mark, an ethical badge for responsible pay, if they apply for accreditation.

Initially after introduction, the NMW was uprated ahead of median wages, but after 2008 fell back in real terms (Cooke and Lawton 2008, Hood et al. 2014). In the summer budget in 2015 the Chancellor announced that he would raise the NMW for those aged 25 and over to £7.20 per hour in April 2016 and to the equivalent of 60% of median earnings or £9 per hour in 2020. The Labour Party has now promised a NMW of £10 per hour by 2020. In some ways

this is a notable achievement for the Living Wage Foundation, and the research on budget standards showing that the present NMW did not provide a ‘living wage’ (Hirsch 2015).

The Chancellor’s higher minimum wage was badged as a *National Living Wage (NLW)*. This is confusing because the rate is not based on the same methodology as the VLW. It will give welcome help, especially for single people and childless couples, towards reaching a higher living standard than the NMW has achieved. However, the announcement was associated with a freeze in benefit levels and cuts to Universal Credit and a new earnings floor within that for the self-employed (which assumes that they are earning the NLW). The Resolution Foundation estimate that average losses in 2020 will be £1000 per year per household, and £1300 for families with children, and that the distributional consequences are heavily regressive (Whittaker 2015). Recent projections by the Institute for Fiscal Studies indicate that child poverty will increase by as much as 1.3 million by 2020/21 (Brown and Hood 2016).

The main justification for the NLW is, like the justification for the NMW, that it can raise living standards for the workers that receive it, including providing a route out of poverty for some of those in working poverty. Other justifications include improved self-esteem and work–life balance for employees, improvements in productivity, recruitment and retention for employers (Bennett 2014), and healthier and more socially engaged citizens (Glickman 1997). The Living Wage Foundation believes that paying the living wage is not just good for employees, but also “*good for business... and good for society*”. Commentators have said, “*Low pay is a significant factor contributing to high levels of working poverty*” (Cooke and Lawton 2008 p26); “*Boosting the incomes of the low paid would therefore help reduce in-work poverty*” (Hood et al. 2014 p150).

US studies of compulsory local ‘living wages’ showed increases in the wages of low-paid workers, small reductions in employment rates and a net effect of some reductions in overall poverty rates in the participating cities (eg. Neumark and Adams 2001). The extensive research on the NMW in the UK in the 2000s has suggested that the policy successfully reduced the prevalence of low pay and contributed to reduced poverty, while having no negative effect on employment (Cooke and Lawton 2008). However, working poverty persisted and in fact grew. Research showed that the impact varied according to the level of the NMW and the local labour market. For example, it was less effective in London which

had lower initial rates of low pay and higher wage inequality than other regions (Cooke and Lawton 2008).

The connection between working status and poverty status is complex. Bennett (2014) pointed out that while there “*certainly is some overlap*”, low pay and in-work poverty are not the same thing, and do not necessarily refer to the same individuals and households. This means that targeting low-paid individuals via policy initiatives on individual pay is not a fully efficient means of targeting people in poor households. In fact, the “*vast majority*” of low-paid people (defined as those earning less than two-thirds of the median wage) are not poor (defined as those living in households with equivalised income below 60% of the median) (Gardiner and Millar 2006 p353). An important distinction is between households where a low-paid job is the main or only job, and those where it is a secondary job (Hood et al. 2014). Low-paid workers are found in every household income decile, and are most concentrated just below average household income rather than amongst the poorest households (Hood et al. 2014).

In-work poverty at household level could be due to low hourly wage rates, but it could also be due to low work intensity, with short hours or periods off work, and/or not all adults in a household being employed relative to the number of dependents, whether non-working adults or children (Luce 2004). It could also be due to poor coverage or poor enforcement of minimum wage rules. People on low hourly pay rates may avoid poverty through long working hours, living with others, or claiming benefits (Luce 2004, Gardiner and Millar 2006). Analysis of the 2000/01 Labour Force Survey suggests that in practice, the most common route out of poverty for low-paid workers was not more hours, or benefits, but living with a partner and/or others (Gardiner and Millar 2006). Low wage earners live in households, and poverty is assessed on the basis of household not individual resources. Previous studies have found considerable diversity amongst households containing low-paid workers, in their size, demography, employment status, and in terms of their poverty status (Bennett 2014). In developing policies to reduce in-work poverty, “*Policymakers should be clear about whether they want to help low-paid individuals or low-paid families... policies that help all low-paid individuals would also help some relatively high-income families*” (Hood et al. 2014 p141).

Analysis of the DWP's tax benefit model tables for 2006 showed that amongst low-waged workers, *"very few family types were able to avoid poverty through their own wages alone. The only exceptions are single, childless people working full time and smaller couple families in which both adults worked full time"* (Cooke and Lawton 2008 p45). Modelling has shown that *"households around the middle of the income distribution [rather than the lowest end] would gain disproportionately from the living wage as lots of low earners live with others who are not necessarily low paid"* (Lawton and Pennycook 2014 p5; also Bennett 2014). However, those at the lowest end of the income distribution would gain a higher percentage of income (Hood et al. 2014).

The Living Wage Foundation has recognised this complexity when it stated, *"The causes of poverty are complex and in order to improve lives there should be a package of solutions across policy areas. The Living Wage can be part of the solution."*

(<http://www.livingwage.org.uk/>). The Institute for Fiscal Studies suggested alternatives and complements to a higher NMW, including incentives to employers for higher wages such as the VLW, increased in-work benefits, and changing national insurance or personal income tax allowances and rates (Hood et al. 2014). Researchers have also argued that a NMW could only form part of an anti-poverty strategy and needed to be complemented by other measures to increase the supply and quality of both jobs and workers (Cooke and Lawton 2008).

If policy seeks to reduce poverty, what contribution can the VLW make?

The survey

The survey was run over late spring and summer 2014 with face-to-face interviews undertaken in the respondent's home (or at the survey company's offices in York) by a professional survey company, *Qa Research*. The respondents invited to take part in the survey were employees of the three project partners (City of York Council (CYC), Joseph Rowntree Foundation/Joseph Rowntree Housing Trust (JRF/JRHT) and York St John University (YSJU)) earning at or below £10 per hour. The total sample recruited and interviewed by the survey company produced 494 completed interviews, providing a useable sample for analysis of 491 employee interviews.

The survey questions were informed by existing national surveys of household resources including the Family Resources Survey, Understanding Society and the Poverty and Social

Exclusion Survey. The survey contained details of earnings and income from other sources including benefits and tax credits, as well as expenditures. The themes covered in the quantitative survey (in addition to detailed standard household survey questions on composition) included employment and training (hours, wage and future career), housing, transport, fuel, water, council tax and finances (debt, savings, pensions and benefits).

The aim of the project was to understand how effective and sustainable the VLW in the context of other anti-poverty policies might be for employees at risk of in-work poverty. Clearly not all employees eligible for or receiving the VLW are at risk of in-work poverty, nor indeed are those above this wage-rate free of risk. As a result it was agreed to sample employees on rates of up to £10 per hour to investigate the question of in-work poverty - as the living wage adoption and any improvements that flow from this to the household resources will only affect those workers towards the bottom end of the wage distribution, whereas significant challenges may also be faced by workers slightly further up the wage distribution. This consideration is particularly relevant if the possibility of increasing the 'wage envelope' to improve the wages of workers (even above that of the living wage) is limited. It also enabled us to compare the circumstances of those who had benefited from the introduction of the VLW and those who were already on wages slightly above that level.

55% of the CYC total directly employed workforce were paid at or below the £10 threshold, for JRF/JRHT the figure was 72% and for YSJU just 26%. The difference in internal wage distribution is a function of the activity of the organisation: CYC staff include a large number of ancillary education workers, JRF/JRHT employees predominantly provide adult social care, and YSJU employs academic, administrative and ancillary staff. This demonstrates that different employers will have different proportions of employees who are potential beneficiaries of the VLW, and will face different scales of challenges in becoming VLW employers. In the case of each employer it is important to note that the majority of those earning less than £10 per hour were female (79% at CYC, 81% at JRF/JRHT and 72% at YSJU). Nationwide, women are at greater risk of low pay than men (Cooke and Lawton 2008, Hood et al. 2014), but the case studies show a more marked pattern than that seen at national level, and suggest that the potential gendered impact on poverty from the VLW may be magnified at industry and organisational level.

In addition to the sampling by employer, the recruitment was also stratified by wage rate and job type. The survey sample was recruited by phone, email and letter by the survey company using a list of employees shared by the project partners with the survey company. The names of the employees shared with the survey company were those who had not opted out of the survey recruitment after correspondence from the employer (i.e. the approach was a survey opt-out rather than opt-in).

The survey sample included appropriate proportional representation of employees from the three partner organisations earning below £10 per hour. For the full population of employees (earnings at or below £10 per hour) across the three partner organisations the proportion of CYC employees was c.86% compared to 10% at JRF/JRHT and 3.5% at YSJU. The final sample recruited reflected closely these original population proportions, e.g. 77.4% at CYC, 17.5% at JRF/JRHT and 5.1% at YSJU, albeit with a small degree of under-sampling from CYC (77.4% vs 86%). Table 1 provides a summary of the recruited sample of 491 respondents. The final sample recruited reflected closely the original population proportions.

Insert Table 1 here

Of the full 491 observations, five were apprentices earning at or below the then (outside London) VLW rate of £7.65 per hour, 193 were receiving the VLW as employees and 293 were above the VLW (up to £10 per hour). See Table 2.

Insert Table 2 here

The main job types covered in the survey were 61 Midday Supervisory Assistants (MSA), 80 Teaching Assistants, 39 Carers (assistants and ILSW) and 36 Cleaners. The proportion of full-time employees (defined as 30 hours per week or more (on the grounds that it is the point that a premium is paid in Working Tax Credit)) was 28% for the full sample, 28.3% at CYC, 26.7% at JRF/JRHT and 36% at YSJU. Nationwide, part-time workers are at greater risk of low hourly pay than full-time workers (Cooke and Lawton 2008, Hood et al. 2014), but again the case studies show a more marked pattern than that seen at national level. The mean (median) age of the employees is just over 44.5 (47) years of age and this is again very similar across the three organisations. The sample is predominantly White with over 94% of

the sample reporting their own ethnicity as White (UK or Irish), reflecting the composition of the local population.

Main findings from the study

Not all low-paid employees are living in units⁵ in poverty

Low wage earners were often living in unusually complex households. Indeed it may be that they could only manage as low-paid workers because they were living in units with higher earners, or more than one other earner, or sharing household expenses, or not having sole responsibility for mortgages, rents, utility bills and council taxes.

Table 3 summarises the complexity of the households that the low wage employees were living in, in terms of number of units, number of adults and relationships in the household. The percentage of working age adults in the sample in multi-unit households is 65.6% and the percentage of all adults including pensioners in the sample in multi-unit households 63.9%. In the Family Resources Survey 2013/14 the equivalent percentages are 39.8% and 32.1% (DWP 2015).

Only 12% of the respondents were single people without children entirely reliant on their net earnings (and any working tax credit that they claimed). Another 8% were lone parents with children who were reliant on their earnings but with the addition of child benefits and tax credits and other benefits that they claimed. All the other single unit households were couples with potentially two earners. 21% were childless couples and 75% of these had two earners. 26% were couples with children and 92% of these had two earners in the family. Indeed twelve single unit households had older but still dependent children with some earnings. In the multi-unit households, in only 17% was the respondent the only employed person, 51% had three or more people working in the household, and eleven households had five or more earners.

Where low wage earners were the main contributor to household resources they were commonly only supporting themselves and a partner, and their net earnings and in-work

⁵ From here on we refer to units - singles, married or cohabiting couples, families (singles or couples with dependent children) and households. Households may consist of one or more than one unit. Units are effectively tax/benefit units – it is assumed that income and other resources are shared. It is assumed that the income of other units in a multi-unit household are not shared.

benefits lifted many of them above the poverty threshold. The poverty risk for employed single earners on the living wage is very small, and it is normally associated with less than full-time working, or not claiming in-work benefits, rather than with low pay.

Insert Table 3 here

Poverty is not just about wages, it is also about hours

Previous research has shown that people on low hourly pay rates can avoid poverty through long working hours (Gardiner and Millar 2006). This latter pattern was reflected in the sample. 91% of respondents said that their low wage job (with one of the three VLW employers) was the main or only job that they had. Of the 42 who said it was not their main job, 37 worked for CYC as midday supervisor assistants (MSAs) in a York school. 30% of respondents held two jobs and 5% held more than two jobs at the time of interview.

Table 4 presents a breakdown of the hours worked, including overtime, in the low wage job and in all jobs. Just over a quarter of low wage employees were working for less than 16 hours per week and only just over a third of low wage employees were working more than 30 hours per week. Low wage employment is clearly predominantly part-time. This picture remains if we just explore the hours of those who are the sole earners in the household – the proportion working less than 16 hours and over 30 hours per week both increase slightly.

Insert Table 4 here

In terms of the job(s) profile the majority of the sample was working in part-time employment, and just over a third were holding multiple jobs. In terms of working weeks in the last year, respondents report that they had undertaken a mean (median) of 44.5 (47) weeks of regular paid work (full-time or part-time) with almost a quarter of the sample reporting 52 paid working weeks in the last 12 months.

Thus, even though an individual was receiving the VLW, they were not working the hours assumed by living wage calculations. However, in terms of working hours' preferences, overall just over 30% of the respondents would have liked to work more hours. This preference was much higher within the part-time (less than 30 hours per week) sample. 38.8% of part-time employees report that they would like more hours, compared with 17.9%

of the full-time sample. Further the preference for more working hours is greater (and statistically significant) for the VLW group. 10% of all respondents wanted to work fewer hours.

In a series of direct question about aspirations and progression, more than half of the sample responded that they were not looking for progression. The follow-up qualitative interviews provided some useful context to these findings - for example, that a lack of confidence in themselves and their skills by lower-waged employees might explain lack of engagement with 'career advancement' when offered. There were no differences in working hours' preferences between those respondents who were living in households above and below the poverty threshold.

Poverty is not just about wages, it is also about cash benefits

Calculations of VLW rates in the UK assume that pay is complemented by benefits and tax credits to create total income, and assume that people are aware of and claim benefits successfully (Hirsch 2015).

For the full sample of 491 respondents, 99 (approximately 20% of the sample) reported receiving working and/or child tax credits. The proportion of VLW employees in receipt of tax credits is significantly higher than the rest of the sample. It can also be assumed that all the respondents with dependent children were receiving child benefit. 30% of the respondents were tenants with roughly equal proportions of local authority/housing association (LA/HA) (47%) tenants and private tenants (41%). 18% of LA/HA tenants and 10% of private tenants were receiving housing benefit. The sub-sample receiving the VLW was more likely to be receiving housing benefit (24%).

Respondents were asked directly about how much they (themselves) thought they received from all the benefits and tax credits per week. For those that were able to respond to this question 37% said they were receiving some benefit. The mean (median) figures per week were £92.94 (£47). For these 185 respondents the mean (median) figures for VLW workers within this group were very slightly higher at £103 (£48), but this difference was not statistically significant.

We sought to answer two other questions in relation to benefits. Were respondents receiving all the benefits to which they were entitled and what would be the impact of Universal Credit on their living standards? In order to answer these questions the welfare rights experts in the York Welfare Benefits Unit were asked to assess whether a sub-set of respondents were receiving all the benefits they were entitled to, and to simulate the implications of a move to Universal Credit.

A sub-sample of approximately 40% of the survey respondents was assessed. Where it appeared that a household had additional benefit entitlement appropriate notification was passed to the research team. The notification included brief benefit entitlement advice that was forwarded to the household in a letter produced by the survey company.

32 cases (16% of those inspected) were identified as having missing entitlement to means-tested benefits and/or tax credits (including 10 disability benefit claims). They were 15 single people, 7 childless couples, 6 lone parents and 4 couples with children. Three established carers (claiming Carer's Allowance) and a further four carers were also potentially missing out. Thus even though these households were receiving the VLW, they were missing out on other income intended to complement it.

The attempt to assess the potential impact of Universal Credit was overtaken and eventually rendered impossible by the many delays in implementation, and then the substantial cuts to the scheme. Suffice it to say that if Universal Credit had been introduced as intended 25% of the cases assessed would have gained. However, a third of those were under-claiming existing entitlements and were assumed to claim Universal Credit on its introduction. 15% of the cases assessed would have lost entitlement under Universal Credit.

Respondents were asked: 'Have you and/or your household been (or will you be) affected by any of the following welfare reforms?' Four respondents had been affected by the 'bedroom tax' (size criteria in social housing). This reduced the amount of housing benefit payable by 14% if they were assessed as 'under occupying' by one bedroom or by 25% if 'under occupying' by two or more bedrooms. Changes to the State Pension were mentioned most frequently (46 cases). These comments referred to the increase in women's State Pension age, delaying entitlement to Pension Credit and more generous rates within means-tested benefits, as well as delaying entitlement to State Pension.

All the employers tried to support low-paid employees with remuneration packages or *employee benefit schemes* run by the employers. The survey found that these were only of minimal value to employees.

Income poverty and deprivation

To assess the risk of in-work poverty (using the under 60% median equivalised income threshold) the Before Housing Costs (BHC) and After Housing Costs (AHC) income measures were constructed at the tax/benefit unit level. It is important to recognise that this is not strictly comparable with Family Resources Survey data which collects income data from every adult in a household and assesses poverty at the household level. But this was not possible given the resources available for this project and not appropriate given the large proportion of multi-unit households. For an accurate income measure to be constructed at family/benefit unit level requires the detailed collection of earnings (we used data from wage slips), benefits and other income received by the respondent (and their partner). This measure was achieved for 338 of the 491 respondents. Of these 338 respondents, 16% were living at or below the 60% median income BHC threshold and 23% AHC, or were living in families that were. The VLW workers were significantly more likely to be income poor than respondents overall - 22% were at or below the 60% median poverty threshold (BHC) and 32% AHC. Thus, despite the introduction of the VLW, poverty (at the family unit level) persisted amongst a minority of the employees of CYC, JRHT/JRF and YSJU. This confirms that VLW policy cannot be sufficient as a route out of poverty. The risk of poverty was not restricted to the VLW group, 13% BHC and 19% AHC of the sample members on higher hourly pay rates were living in families on incomes at or below 60% median income threshold. This suggests that even an increase in the VLW pay rates would not be sufficient as a route out of poverty. However, the VLW policy is likely to have increased family unit incomes, and to have reduced the severity of poverty for those units still falling below the poverty threshold.

The poverty rate varied by the type of unit. The BHC poverty rate was 25% for single person single unit households, 24% for single unit lone parent households. It was 21% in multi-unit households and 31% if the respondent was a single person in a multi-unit household. The BHC poverty rate also varied with the number of workers in the household – it was 25% for

one earner units and 11% for units with two or more earners. Those in poverty [BHC] were also working fewer hours: a mean of 21 per week compared to those not in poverty (28 hours per week).

Few studies to date have examined the effect of the VLW on material deprivation, as opposed to income poverty. The deprivation indicators used were derived from the 2012 PSE study (Main and Bradshaw 2014) and consisted of a set of items and activities that it had been established in that study more than half the population in the UK considered to be necessities that people today should not be without – so called ‘socially perceived necessities’.

The study distinguished between household⁶ necessities, adult necessities, and the necessity items also asked about in households with children. The majority of the respondents reported that their households had all the necessities and did all the listed activities. The most common household necessity lacking because it could not be afforded was *household insurance*. The most common adult items lacking because they could not be afforded were *regular savings* and *money to repair broken electrical goods*. The most common items relating to children lacking because they could not be afforded were *money to save* and *a holiday away from home*.

From these responses two scales were produced. The number of items lacked by adults was produced by adding the number of household and adult items and activities lacking because they could not be afforded. 57.2% of the sample lacked no items and 71.0% lacked one or fewer items. Analysis of the number of child items lacking was restricted to families where the respondent was the parent of the child in order to exclude the cases where the respondent was living in a household with children but did not know the circumstances of the child. 62.0% of this subsample were not lacking any child items and 79.2% were lacking one or fewer items.

With an adult threshold of lacking two or more necessities, 29% of families with a low-paid employee in the sample were deprived. Using a threshold of lacking one or more child necessities, 21% of low-paid employees with children were deprived.

⁶ In this case respondents were asked whether they (or their children) lacked items because they could not afford them. If they were sharing a household with other family units they might say they are not lacking household items because they shared them.

Units containing employees on the VLW were more likely to be deprived and have significantly higher levels of deprivation than those who were low paid but on rates above the VLW. Thus, despite the introduction of the VLW, material deprivation as well as poverty persisted amongst a minority of the employees of CYC, JRHT/JRF and YSJU. There was no significant difference in child deprivation between children whose parents were on the VLW and those whose parents were on higher income.

The deprivation rate varied according to the type of unit and household (and the pattern for these low wage workers matched that seen for the population overall (Main and Bradshaw 2014)). Lone parents in the sample had a higher risk of adult deprivation. This held whether or not they were living in single unit or multi-unit households. Single respondents also had a higher risk of deprivation, and living in a household with other people did not appear to mitigate this. Adult and child deprivation was more prevalent among families with one worker (38% and 25% respectively) compared with those with more than one worker (21% and 13% respectively). But there was no difference in the hours worked by the employee by whether they were deprived of adult or child items.

The impact of the VLW

It is also important to explore the VLW from the point of view of its recipients. During the qualitative phase of this research, several key themes emerged. Firstly, whilst the implementation of the VLW had not lifted all the case study employees who received it above the household poverty threshold, it had increased employee incomes and VLW employees appreciated receiving higher wages. In immediate terms the additional money helped with essentials; for example, several participants reported that it helped them to pay bills *‘[I] can meet bills better... [the] extra income helps us not to worry’*. A sense of relief was evident in some of the interviews, with the additional money helping to reduce immediate financial worries. Moreover, some participants described being able to do things that may have previously been problematic, such as saving: *“Increase in disposable income means more likely to save money for rainy day”*, and funding children’s activities: *‘Slightly better off, money used to pay for children’s activities’*.

Secondly, some interesting points were made about the impact on staff morale. For example, one participant commented: *“It has given me more pride in my role”*, and another said *“[I]*

feel more loyal to the council. Other jobs in the same field of work I am in are all lower paid”. Even amongst participants who did not report any direct impact of the VLW there was the suggestion that in general terms it had had an impact: *‘No difference to me. Perhaps made people think their wage is fairer’*.

Conclusion

This article illustrates how a minority of people on a ‘living wage’ do not avoid poverty or material deprivation, because of one or more of several factors: part-time hours, the nature of the units they live in and potentially, in some cases, failure to claim benefits they are due. It is clear from this study that there are many factors influencing the respondents’ incomes apart from the hourly gross wage rate. The hours worked are important. The vast majority of low-paid employees worked part time, but about 30% of the sample wanted to work more hours, including 38.8% of part-time workers. It is also clear that the low wages being received by respondents are commonly not the main or only determinant of their living standards. Their living standards are also determined by the unit they live in, other unit income and unit needs. For families with children, especially, benefits and tax credits also make a major contribution to their living standards, given the heavily means-tested nature of the in-work benefit/tax credit system in the UK.

The majority of low-paid employees in this sample are not income poor or deprived. Low pay should not be elided with poverty and deprivation. This was also illustrated by the modelling undertaken by D’Arcy et al. (2015) and Elming et al. (2015) of the highly regressive distributional impact of the introduction of the NLW and the cuts to Universal Credits.

However, many low-paid employees are living in units that are income poor and also materially deprived. There is some evidence that VLW employees are more likely to be income poor and deprived than employees with wage rates above the living wage. Paying employees a VLW, or more, is likely to reduce the risks of poverty, especially for single people who are likely to be most dependent on their own earned income. It is striking that it is single earners and lone parents in this sample who appear to be most likely to be income poor and deprived. They are also most likely to be more dependent on their own earnings.

Employers seeking to help their employees reach adequate living standards need to pay at least the VLW, but they also need to seek to offer longer hours employment. Indeed under the work conditionality regime in Universal Credit claimants will be expected to work more hours (if they are receiving it), whether or not they want to, within their own conditionality contract. Employers could help by stitching together part-time roles into more significant employment. Employers could also play a part in ensuring that their employees are claiming all the in-work benefits to which they are entitled.

References

- Bennett, F (2014) ‘The living wage’, low pay and in-work poverty: Rethinking the relationship’ *Critical Social Policy* 34(1) pp46-65
- Cooke, G. and Lawton, K. (2008) *Working Out of Poverty: A study of the low paid and the ‘working poor’* London: Institute for Public Policy Research
http://www.ippr.org/files/images/media/files/publication/2011/05/working_out_of_poverty_1616.pdf?noredirect=1
- D’Arcy, C., Corlett, A. and Gardiner, L. (2015), *Higher ground: who gains from the National Living Wage?* London: Resolution Foundation
<http://www.resolutionfoundation.org/wp-content/uploads/2015/09/NLW1.pdf>
- DWP (2016) *Households below average income 1994/95-2014/15*.
<https://www.gov.uk/government/statistics/households-below-average-income-199495-to-201415>.
- Elming, W., Emmerson, C., Johnson, P. and D. Phillips (2015) *New analysis of the potential compensation provided by the new ‘National Living Wage’ for changes to the tax and benefit system*, London: Institute for Fiscal Studies. <http://www.ifs.org.uk/publications/7980>.
- Gardiner, K. and Millar, J. (2006) ‘How low-paid employees avoid poverty: An analysis by family type and household structure’ *Journal of Social Policy*, 35 (3), 351-369
- Glickman, LB (1997) *A Living Wage: American Workers and the Making of Consumer Society* Ithaca, New York: Cornell University Press

Hirsch, D. (2015) Minimum Income Standards 2015, York: Joseph Rowntree Foundation
<https://www.jrf.org.uk/report/minimum-income-standard-uk-2015>.

Hood, A; Joyce, R and Phillips, D (2014) 'Policies to help the low paid' pp141-170 in eds. Emmerson, C; Johnson, P and Miller, H *The IFS Green Budget: 2014* London: Institute for Fiscal Studies <https://www.ifs.org.uk/budgets/gb2014/gb2014.pdf>

Lawton, K and Pennycook, (2013) *Beyond the bottom line: The challenges and opportunities of the living wage* London: Resolution Foundation

Luce, S (2004) *Fighting for a living wage* Ithaca, New York: IRL Press

Main, G. and Bradshaw, J. (2014) Child poverty and social exclusion; Final Report of the Poverty and Social Exclusion Study 2012 York: Social Policy Research Unit, University of York <http://www.york.ac.uk/inst/spru/pubs/pdf/PSEfinal.pdf>

Neumark, D and Adams, S (2001) Do Living Wage Ordinances Reduce Urban Poverty?' *The Journal of Human Resources*, 38(3) pp 490-521

Smith, Adam (1776) *The Wealth of Nations*, Heritage Illustrated Publishing.

Whittaker, M. (2015) "O, blessed revisions: fiscal windfall and what to do with it."

Resolution Foundation <http://www.resolutionfoundation.org/wp-content/uploads/2015/11/SR2015.pdf>

Table 1: Sample size

Employer	N	%
CYC	380	77.4
JRF/JRHT	86	17.5
YSJU	25	5.1
	491	100

Table 2: Wage rate of the sample

Gross wage per hour	N	%
Apprentices	5	1.0
Living wage or living wage supplement	193	39.3
£7.66-£8.00	23	4.7
£8.01-£8.50	133	27.1
£8.51-£9.00	48	9.8

Greater than £9.00	89	18.1
	491	100

Table 3: Household composition by number of people employed

	Number of people with employment						Total
	1	2	3	4	5	6	
Single-unit households	129	184	10	1	0	0	324
Single person	57	0	0	0	0	0	57
Couple	25	77	0	0	0	0	102
Lone parent and children	37	1	1	0	0	0	39
Couple and children	10	106	9	1	0	0	126
Multi-unit households	28	53	51	24	8	3	167
One adult plus one or more adults no children	17	21	13	5	4	3	63
Couple no children plus others	4	10	20	8	2	0	44
One adult plus non-dependent children	4	2	4	1	0	0	11
Couple plus non-dependent children	0	9	1	0	0	0	10
Lone parent plus children plus other adults	0	1	0	0	0	0	1
Single person plus other adults and children	3	2	5	4	1	0	15
Couple plus children and other adults	0	2	0	1	0	0	3
Couple plus other adults with children	0	6	8	5	1	0	20
Total	157	237	61	25	8	3	491

Table 4: Hours worked

Hours worked per week	Percentage of respondents		
	Low wage employment	All employments	All employments: sole earner household
<16	25.8	21.9	29.9
16-30	38.7	37	27.2
>30	35.5	41.1	42.9
N	485	479	154